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UNCLAS SECTION 01 OF 03 PHNOM PENH 001506

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STATE FOR EAP/MLS, EEP/TPP/BTA
F FOR ELLIS, HUNT AND SMITH
USAID FOR ANEQDONOVAN AND JENNINGS, EGAT FOR KLISSAS AND
SCHWARTZ
BANGKOK FOR USAID--KISSINGER, FCS--BACHER, USPTO--NESS
HANOI FOR FCS--NAY
HO CHI MINH CITY FOR FCS--MARCHAK AND LE
COMMERCE FOR ITA/MAC--MIKALIS
TREASURY FOR INTERNATIONAL AFFAIRS--WALSH AND CHUN
STATE PLEASE PASS TO US TRADE AND DEVELOPMENT AGENCY--FOR
WINKATES
STATE PLEASE PASS TO USTRQFOR BISBEE AND WEISEL

E.O. 12958: N/A
TAGS: [ETRD](#) [ECON](#) [PREL](#) [PGOV](#) [KCOR](#) [CB](#)
SUBJECT: CAMBODIA: TRADE DIAGNOSTIC REPORT PROMPTS
INTENSE BILATERAL DIALOGUE

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¶1. (SBU) Summary: Recent discussions between key Cambodian government officials and USAID staff about a USAID-funded trade diagnostic report have led to increased political will to tackle economic reform and a resultant improvement in USAIDQs relationship with the government on economic issues. The report and associated discussions with staff of USAIDQs Regional Development Mission/Asia in Bangkok (RDM/A), USAID Cambodia, and consultants are the foundation on which the Cambodian government and USAID are planning future USAID economic sector assistance to Cambodia, and are one more strand in the maturing relationship between the Royal Government of Cambodia (RGC) and the U.S. The RGC, in an order issued by the Prime Minister, has created a special Policy and Strategy Committee for the purpose of facilitating the new relationship with USAID. RDM/A and USAID Cambodia are working together with USAID Washington to host a Regional Forum to compare and contrast regional economic reforms and to support the creation of an ASEAN Economic Community by ¶2015. Working in the context of improving the investment environment and CambodiaQs competitiveness will also provide an indirect and non-confrontational context for addressing corruption. Expanding USAID funding for economic-growth activities in Cambodia will be key to maintaining credibility and building on this momentum. End summary.

¶2. (U) In 2006, as part of USAIDQs on-going relationship with ASEAN, RDM/A in Bangkok completed South East Asia Commercial Legal and Institutional Reform and Trade Diagnostics Reports (SEA-CLIR) for five ASEAN countries: Vietnam, Philippines, Laos, Indonesia and Cambodia. The assessments, produced by Booz Allen Hamilton consultants, together with USAID technical support, provided USAID and participating countries with quick, cost-effective analyses of progress in trade and commercial law reform. USAIDQs objective in supporting these areas has been to help accelerate economic growth by promoting the development of

a legal and regulatory environment supportive of domestic and international trade and investment. Specifically, the primary purpose of the report is to provide an opportunity for ASEAN countries to compare progress in key areas of commercial law and trade reform and to facilitate ASEAN economic integration.

Reports Spur Re-engagement with Cambodian Government

13. (U) At the time of the consultants' field work in Cambodia (February 2006), USAID/Cambodia was unable to partner with the RGC in the economic sector because of the congressional restriction on aid programs benefiting the central government. As a result, USAID had few relationships with government officials and the draft 2006 report was largely based on interviews with other donors, the private sector, and non-government organizations. Now that the congressional restriction has been lifted, USAID has begun engaging with the RGC on economic discussions by bringing the consultants responsible for the SEA-CLIR report back to Cambodia. During their week-long visit in November, the consultants and USAID staff presented the draft report to the Ministries of Justice, Economics and Finance, Interior, and Commerce; the National Bank; the Supreme National Economic Council; the Council for the Development of Cambodia; the Council for Legal and Judicial Reform; the Council of Ministers; and the National Assembly's Economic Committee.

14. (SBU) USAID technical staff spent considerable time reviewing the report page by page with cabinet members and technical personnel from line ministries. The RGC enthusiastically welcomed the opportunity to engage in economic-related discussion with USAID for the first time since 1997, although they felt that the tone of the report was often negative, and indicated that, in some cases, it

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was out-of-date or inaccurate. The consultants are now using feedback from the RGC to correct inaccuracies, update the report, and modify the tone where warranted. All meetings were straightforward and frank, while, at the same time, quite productive and extremely professional and courteous.

15. (SBU) A significant outcome of the high level meetings was the decision by the RGC, in an order issued by the Prime Minister, to create a special Policy and Strategy Committee for the purpose of facilitating the new relationship with USAID, particularly in collaborating with USAID on the design of its proposed new five-year \$15 million project to improve Cambodia's business enabling environment. The project will address policy and regulatory constraints on trade and investment among other issues. It is important to recognize that many of the constraints on trade and investment are the result of what are, in reality, corrupt practices such as preferential treatment in the awarding of business licenses and concessions, lack of transparency in regulatory and business practices, a non-independent judiciary, etc. Working in the context of improving the trade and investment environment now gives us a means of approaching and addressing such sensitive issues in a non-confrontational way.

Progress Made in Several Areas; Challenges Remain

16. (SBU) During the meetings, it was agreed that a number of constructive initiatives and events have occurred since the February 2006 draft, and that these will be reflected in the updated report. On the legal front, this includes passage of laws on customs, civil procedure, and secured transactions. Also, it appears the government is close to passing the civil code and the law on insolvency. Some of

the new priority laws still required include those covering commercial courts and commercial contracts. On the institutional front, the RGC has been making progress in Customs administration. Cooperation between CamControl (the health and food safety regulatory agency) and Customs has increased; a new computerized customs control system (ASYCUDA) is being implemented to promote efficiency and transparency; a professional core of key Customs staff has been recruited; and a new risk management system for selectively inspecting incoming and outgoing goods is set to be implemented. While the tone of the report can be made more positive based on recent progress in some areas, key issues remain, including corruption; insufficient access to public information; the need for implementation of the new laws; a general lack of technical and managerial capacity; and a lack of stakeholder involvement. Where there are differences in the RGCQs and consultants opinions, these will be noted in the pertinent sections of the updated report.

Cambodia to Publicize Report, Host Regional Conference

¶7. (SBU) USAID will submit the updated report, confidentially, to the RGC in the coming weeks.

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Ultimately, it is up to the RGC to decide if they want to make the report public, however, the Ministry of Commerce has clearly indicated that it would like to make the report public after the consultants update it.

¶8. (U) The final versions of the country-specific reports will be incorporated into one regional synthesis report to be presented at an ASEAN SEA-CLIR Regional Forum to be convened in early 2008. Representatives from the five ASEAN nations included in the SEA-CLIR process will attend. The focus of this Regional Forum will be to discuss with ASEAN how the comparative results of these diagnostics can be used to facilitate the creation of an ASEAN Economic

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Community by 2015. As a result of the end of the U.S. congressional restriction on assistance to the RGC in FY2007, and USAIDQs subsequent re-engagement with the RGC on economic discussions, Cambodia has offered to host this SEA-CLIR Regional Forum. USAID is working with Deputy Prime Minister Sok AnQs cabinet to confirm a final date and the participation of the highest-level RGC officials.

Comment

¶9. (SBU) The SEA-CLIR report and related meetings have effectively opened a new high-level dialogue between USAID and the Cambodian government and spurred positive re-engagement on trade and economic assistance issues. There is broad-based political will for reform in the economic sector and strong interest in enhancing our bilateral relationship in this area. The SEA-CLIR experience also demonstrates how regional and bilateral USAID programs can work together to accomplish mutually beneficial goals. USAID/CambodiaQs engagement with the RGC introduced bilateral depth to a regional program while the RDM/AQs program provided a larger regional perspective that demonstrated to the RGC the need to pursue legal, economic and trade reforms. As Commerce Minister Cham Prasidh explained: QThis report is inciting us to compare our reform agenda to that of our neighbors."

¶10. (SBU) USAID/Cambodia will continue to work closely with the RGC in designing its new economic growth program for Cambodia, and will liaise with the RDM/A in Bangkok to integrate the program with the ASEAN economic integration process and other regional reform efforts. USAID/Cambodia will also coordinate its work with other USG agencies via

the on-going US-Cambodia Trade and Investment Framework Agreement (TIFA) process. It will be critical to ensure that the level of funding for USAIDQs economic growth/trade-related activities in Cambodia is not only maintained but expanded in order to take advantage of the new opportunities, and to maintain our credibility with the RGC following USG re-engagement with them in this sector and their positive response.

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